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ABSTRACT

The new Labour Government in Britain has made the reduction of child poverty one of its central objectives. This paper describes the specific initiatives involved in Labour's approach and weighs them in terms of their potential impact. After setting out the extent of the problem of child poverty, the causes are discussed, and Britain's problem is set in an international perspective. The impact on child poverty of policies designed to raise incomes directly is analyzed using micro-simulation modeling. A major emphasis of current policy is on the promotion of paid work, and the paper explores the potential for poverty reduction of increasing the employment of parents. It finds that at its maximum, increasing paid work could roughly double the reduction in child poverty achieved by tax and benefit policies alone, a combined decrease of 1.85 million children in poverty. However, a more realistic forecast of increases in parental employment suggests that the number of children in poverty may be reduced by one million by 2002. The policies that address long-term disadvantage are also discussed, the whole program is assessed, and future strategy is considered. (Contains 26 references.) (SM)

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How Effective is the British Government's Attempt to Reduce Child Poverty?

David Piachaud and Holly Sutherland

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Editorial Note and Acknowledgements

David Piachaud is Professor of Social Policy at the London School of Economics and an Associate of the Centre for Analysis of Social Exclusion and Holly Sutherland is director of the Microsimulation Unit in the Department of Applied Economics at the University of Cambridge. We are grateful to the UNICEF International Child Development Centre, Florence for financial support and to John Hills, John Micklewright and Brian Nolan for helpful comments on an earlier draft. We are also grateful to Lavinia Mitton for research assistance. However, the errors that remain, as well as the opinions expressed, are the authors' responsibilities. Data from the Family Expenditure Survey are Crown Copyright. They have been made available by the Office for National Statistics (ONS) through the Data Archive and are used by permission. Neither the ONS nor the Data Archive bears any responsibility for the analysis or interpretation of the data reported here. POLIMOD is the tax-benefit microsimulation model constructed by the Microsimulation Unit, originally funded by the ESRC (R000 23 3257).

Abstract

The new Labour Government in Britain has made the reduction of child poverty one of its central objectives. This paper describes the specific initiatives involved in Labour's approach and weighs them up in terms of their potential impact. After setting out the extent of the problem of child poverty, the causes are discussed and Britain's problem is set in international perspective. The impact on child poverty of policies designed to raise incomes directly is analysed using micro-simulation modelling. A major emphasis of current policy is on the promotion of paid work, and we explore the potential for poverty reduction of increasing the employment of parents. We find that at its maximum, increasing paid work could roughly double the reduction in child poverty achieved by tax and benefit policies alone - a combined decrease of 1.85 million children in poverty. However, a more realistic forecast of increases in parental employment suggests that the number of children in poverty may be reduced by 1 million by 2002. The policies that address long-term disadvantage are also discussed and finally the whole programme is assessed and future strategy is considered.

1 Introduction

The new Labour Government in Britain has made the reduction of child poverty one of its central objectives. Before its election in 1997 after 18 years of Conservative Government the growth in relative poverty and the damage to society of widening inequality were constant themes of Labour politicians. Before he became Prime Minister Tony Blair said that unless a new Labour Government succeeded in raising the incomes of the poorest it would have failed. Yet prior to the election there were few policy commitments and no specific emphasis on child poverty. This has now changed. In March 1999 Tony Blair said: "Our historic aim will be for ours to be the first generation to end child poverty.... It is a 20 year mission" (Walker, 1999). The Chancellor of the Exchequer has called child poverty "a scar on the nation's soul" (Brown, 1999). A plethora of policy initiatives and series of review documents show the priority that the government now gives to reforming and modernising the welfare state in general and to tackling child poverty in particular.[1]

The purpose of this paper is to describe the initiatives taken up to the end of January 2000 and to weigh them up in terms of potential impact – how much substance lies behind the fine words and noble aspirations? First, the extent of the problem of child poverty is set out, the causes are analysed and Britain's problem is set in international perspective. In section 3 the new Labour Government's overall approach is described. Then in section 4 policies designed to raise incomes directly are described and their impact is analysed using micro-simulation modelling. In section 5 policies to increase paid work are described and their possible impact on poverty is simulated. The policies that address long-term disadvantage are discussed in section 6. Finally the whole programme is assessed and future strategy is considered.

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1 Policy initiatives are summarised in Department of Social Security (1999a). Background analysis is set out in HM Treasury series on *The Modernisation of Britain's Tax and Benefit System*, which is available at www.hmtreasury.gov.uk.

2 The Extent and Causes of Child Poverty in Britain

The Labour Government "is committed to tackling poverty and its causes." In the first of what are to be annual reports on poverty and social exclusion it stated:

> "Poverty affects different aspects of people's lives, existing when people are denied opportunities to work, to learn, to live healthy and fulfilling lives, and to live out their retirement years in security. Lack of income, access to good-quality health, education and housing, and the quality of the local environment all affect people's well-being. Our view of poverty covers all these aspects." (DSS, 1999a: 23)

The definition of poverty has been subject to extensive, occasionally useful, discussion. During the years of Conservative Government (1979-1997) there was no official concession that poverty existed and no definition of it was accepted (although statistics relevant to poverty continued to be published). Now Labour Ministers talk openly about poverty. For the most part they concentrate on a narrower concept of poverty than that quoted above, namely income poverty. They use statistics often based on a poverty line of one-half of mean equivalised disposable income, which is used throughout this paper. Such a relative definition of poverty has continued to be used by most of the academic community and follows practice in most other countries. Details of the methodology are discussed further in section 4 and by the Department of Social Security (1999b).

2.1 Extent

Over the period since 1979 for which consistent data are available, the number of children in poverty has tripled; this growth makes child poverty a growing cause for concern.

Overall the latest figures for 1997/8 show that 11 million people were living below half the mean income level (before housing costs) and 14 million people were living below half the mean level of income on an "after housing costs" basis. This represents one-quarter of the population. Of this number, 4.5 million were children; one in three children were living in poverty.

Much of the public perception of the problem in Britain is that child poverty is largely a problem involving lone-parent or very young families, that it is associated with ethnic minorities and that it largely occurs in public housing. In fact all these stereotypes are misleading.

Slightly less than half (48%) had parent(s) aged under 30 years; only one-fifth (19%) were from ethnic minorities and two-fifths (43%) were in local authority housing.[2]

Nonetheless, certain groups of children are particularly likely to live in households which have low incomes. Overall 40% of children live at a low income level (defined now as in the bottom 30% of the income distribution). But those most at risk include children in

families with four or more children	(73%)
families with mothers aged 16-24	(68%)
ethnic minority families	(65%)
lone parent, never married	(79%)
lone parent, divorced or separated	(66%)
families without a working parent	(86%)

(Source: Box 3.1 Department of Social Security, 1999a)

2.2 *Causes*

The growth in the extent of child poverty in Britain is shown in Table 1.[3] It can be seen that about two thirds of the poorest children were in families without a full-time worker and the biggest absolute increase was in single parent families, most of whom were not in paid work. But the most rapid growth occurred in families with one or two children and a full-time worker. Thus, the analysis of child poverty points to not one but a number of causes: there are more children in workless households and there are more children in "working poor" households.

Nearly one in five children in Britain now lives in a household where no one is in paid work – double the proportion in 1979 and four times the proportion in 1968 (Gregg *et al*, 1999). This growth is the result of three principal changes. First, the number of lone parent families has risen; most are headed by women and most of these women are not in paid work. Second, unemployment levels have not fallen to the levels of the 1970s. Third, male inactivity rates have risen substantially; this has been most marked for men aged 50 and over but among men aged 25-49 the proportion economically inactive rose from 1.9% in 1979 to 7.6% 1998 (Gregg and Wadsworth, 1999) so that inactivity is now a more prevalent cause of worklessness than unemployment. Recent work such as that of

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2 Table 4.1 (AHC) Department of Social Security, 1999b; children in self-employed and pensioner households are excluded.

3 For 1997/8, figures for both before and after housing costs are given since most of the analysis below uses the "BHC" definition. For comparability over time, the AHC figure is the most useful.

Hills, Jenkins and Walker (in Centre for Analysis of Social Exclusion, 1999) adopts a dynamic approach and emphasises long-term problems. Persistent worklessness from this perspective is now a more serious problem than short-term unemployment.

Table 1: Children in Poverty (thousands)

	1979 AHC	1997/8 AHC	1997/8 BHC
One or more full time workers			
- self employed	250	500	450
- employee, 1 or 2 children	70	460	310
- employee, 3 or more children	160	460	350
Others			
- single parents	280	1830	1200
- couples with children	680	1140	1000
All	1400	4400	3300

Notes: Poverty = Below 50% of mean equalised income level after housing costs
Sources: 1979 - Department of Social Security (1998); **1997/8** – Department of Social Security (1999b).

The growth in the number of poor children in working households is attributable according to the Treasury to two main changes (discussed in HM Treasury, 1999a). First, the increase in inequality of earnings: the wages of men in the top decile group grew over the last two decades at twice the rate of those in the bottom decile group. Second, more working households relied on part-time work which was often insufficient to lift the household out of relative poverty.

2.3 *International comparison*

Consistent international evidence has recently been compiled for UNICEF by Bradbury and Jantti (1999). Using the Luxembourg Income Study data for 25 nations, the extent of child poverty has been compared using a variety of poverty standards. Here the results, using the standard most consistent with the British Government's standard, are summarised in Table 2.

Table 2: Child Poverty Rates

Country	Year	Child Poverty Rate	Population Shares		Poverty Rate	
			Lone Mother	Two Parent	Lone Mother	Two Parent
Russia	1995	26.6	0.08	0.60	31.0	26.0
United States	1994	26.3	0.15	0.60	59.6	16.7
UK	1995	21.3	0.19	0.70	40.3	17.5
Italy	1995	21.2	0.02	0.73	20.2	20.9
Australia	1994	17.1	0.09	0.73	38.3	14.7
Canada	1994	16.0	0.11	0.69	45.3	12.3
Ireland	1987	14.8	0.03	0.73	29.8	16.7
Israel	1992	14.7	0.03	0.71	26.6	14.0
Poland	1992	14.2	0.05	0.72	4.9	13.7
Spain	1990	13.1	0.02	0.62	25.2	12.4
Germany	1994	11.6	0.09	0.77	43.3	8.5
Hungary	1994	11.5	0.06	0.66	12.0	10.9
France	1989	9.8	0.07	0.75	25.4	7.7
Netherlands	1991	8.4	0.08	0.82	29.6	6.8
Switzerland	1982	6.3	0.07	0.88	21.2	4.8
Taiwan	1995	6.3	0.02	0.57	15.2	5.1
Luxembourg	1994	6.3	0.06	0.76	30.1	4.4
Belgium	1992	6.1	0.07	0.78	11.8	6.1
Denmark	1992	5.9	0.13	0.76	10.5	5.5
Austria	1987	5.6	0.10	0.73	33.2	2.9
Norway	1995	4.5	0.14	0.73	10.4	3.4
Sweden	1992	3.7	0.15	0.82	4.5	3.6
Finland	1991	3.4	0.09	0.79	6.2	3.0
Slovakia	1992	2.2	0.05	0.73	7.6	2.1
Czech Republic	1992	1.8	0.07	0.75	8.9	1.3

Note: Children are poor if their households have an equivalent disposable income less than 50% of the overall median (before housing costs).
Source: Bradbury and Jantti (1999) Tables 3.3 and 3.4

Britain[4] had the third highest proportion of children in poverty overall and the highest of any European country. The rate was more than twice that in France or the Netherlands and over five times that in the Nordic countries. The proportion of children with lone mothers in Britain was the highest of any country and the poverty rate of such children among the highest. While most of the countries studied had child poverty rates that changed little in the last decade or so, only Britain and Italy of the EU countries had a fast growing poverty rate.

Thus, viewed from an international perspective, there is little doubt of the severity of Britain's child poverty problem.

The most striking difference that helps to account for Britain's higher child poverty rate is the extent to which children are in workless households; this is shown in Table 3. Only Ireland has higher rates of non-employment for working-age households with children.

Table 3: Risk of Non-Employment for Working-Age Household with Children, 1996

	Single Adult Households	Two-Adult Households
Switzerland	17.1	1.7
Luxembourg	29.7	2.1
Portugal	25.2	2.5
Greece	35.4	3.1
Australia	23.5	3.3
Germany	38.0	5.5
Netherlands	55.1	5.7
United States	34.1	5.7
France	34.0	5.9
Belgium	51.1	6.3
Italy	28.9	6.6
Finland	41.8	7.2
Spain	39.4	9.0
Britain	60.8	10.7
Ireland	61.2	12.7

Source: Table 1.7, OECD (1998).

4 The term 'Britain' is used for convenience to denote England, Wales, Scotland and Northern Ireland.

3 Government Initiatives Relevant to Child Poverty

The Government summarised its overall approach as follows:

> "In the past, attempts to deal with these issues often focused on short-term, piecemeal solutions. Huge sums were spent dealing with immediate problems, very little on preventing problems occurring in the future. Our approach is radically different. We are putting in place new solutions to old problems, working together with all sectors of society and through better working throughout government. We are:
>
> - tackling the causes of poverty and social exclusion, not just the symptoms.
> - creating a fairer society in which everyone has the opportunity to achieve their full potential; and
> - investing in individuals and communities to equip them to take control of their lives."
>
> Source: DSS (1999a: 3).

The overall strategy of welfare reform has the aim of ensuring paid work for those who can, security for those who cannot. The principal measures to reduce child poverty may be conveniently divided into three categories:

1. Policies to alter income levels directly through the tax and benefit system. The aim is to provide direct financial support to all families, recognising the extra costs of children, while targeting extra resources on those who need it most.
2. Policies to promote paid work. The aim is to ensure that parents have the help and incentives they need to find work. Paid work is seen as the best long-term route to financial independence for families. The Government aims to reduce the number of working-age people in families claiming Income Support or income-based Job-Seekers' Allowance for long periods of time.
3. Measures to tackle long-term disadvantage.

This division is convenient – and the analysis of policies and their impact follows this division in the next three sections - but the goals of these policies overlap. For example, one of the aims of tax and benefit policies is to support and reward work and make it worthwhile both to move off benefit and into work. No attempt is made here to discuss in detail *all* the policy changes that relate to children. Analysis of all the

reforms in the education system, for example, could, and in time no doubt will, fill many volumes. Our focus is on those policies with the most direct bearing on child poverty.

4 Policies to Alter Income Levels Directly

4.1 Policy changes

In 1997 the main features of the system of taxes and benefits *for children* had not been substantially changed in structure for over twenty years. In the post-war Beveridge reforms universal family allowance for second and subsequent children had been introduced. These were integrated with child tax allowances in 1976 when Child Benefits payable for all children were introduced. A means-tested benefit for low income working families was introduced in 1971 and extended and re-named Family Credit as part of the Fowler reforms in the late 1980s. There are child additions to the main social assistance benefits and to some contributory benefits. The income tax system which in 1997 was based largely on individual, not family, assessments, no longer had tax allowances or other concessions for children.[5]

By January 2000, the main changes introduced or planned by the new Labour Government were the following:[6]

1. Working Families' Tax Credit (WFTC) was introduced in October 1999. This tax credit, normally to be paid through the pay packet, replaces Family Credit which was a means-tested benefit paid direct to families. The tax credit, like Family Credit, is withdrawn according to income. WFTC is more generous with a higher maximum payment and a lower taper. To qualify a person must work 16 hours a week or more, have a dependent child and not have capital of more than £8,000. The credit is larger if a parent does paid work for 30 hours a week or more.
2. Child Benefit is being increased by more than the rate of inflation. This is a universal benefit paid for each eligible child without any test of means and not subject to income tax. For the first child it was raised by £2.95 in April 1999 and will go up to £15.00 a week

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5 See O'Donoghue and Sutherland (1998) for a discussion of tax concessions for children within Europe.

6 All monetary amounts are in £ sterling. At the time of writing £1 equals approximately 1.60 or US$1.60.

in April 2000 – an increase of 36% since 1997. Child Benefit for the second and subsequent children is being increased to £10.00 in April 2000.

3. Children's Tax Credit will be introduced from April 2001. This tax credit, which is a replacement for the Married Couple's Tax Allowance and the corresponding tax allowance for lone parents, will be paid to a parent in all families with children aged under 16, except that it will be withdrawn from higher rate tax payers. It will be worth up to £416 a year to families with an income tax payer.
4. Rates of Income Support (IS) and other associated means-tested benefits are being increased for families with children, particularly for those with children under 11. This is the means-tested safety net available to unemployed, sick or disabled families and to lone-parent families. The premiums for children aged under 11 increased by £4.70 in October 1999 and will rise by a further £1.05 in April 2000, bringing them into line with the premiums for children aged over 11.

According to government estimates, the extra spending on children by 2001 will amount to:

Working Families Tax Credit	£2.0bn
Children's Tax Credit	£1.8 bn
Child Benefit and income-related benefits	£1.8 bn
Other	£0.35 bn
Total	£6.0 bn

Source: Chart 3.4, HM Treasury (1999).

The extra spending of £6 billion amounts to 0.7% of gross domestic product and 2% of total government expenditure. Not all this extra spending can genuinely be claimed as representing an advance against child poverty. Two billion would have had to be spent anyway if benefits were to be increased just in line with prices.

In addition, the government figures relate to some specific child-related measures announced in the Budgets of 1998 and 1999. Other general measures, such as changes to income tax, also affect families with children. Commitments to additional policy reforms other were made during the first months of the Labour government. These include the introduction of a National Minimum Wage of £3.60 per hour for those aged 21 and over, which is predicted to boost the hourly earnings of nearly two million workers, two-thirds of them women, by an average of 30% (DSS, 1999a: 92). Another decision was to abolish special

benefits for lone parents; this will tend to reduce incomes of some families with children. It is to the net effects of all these changes that we now turn.

4.2 The impact of policy changes

In this section we carry out our own quantitative exploration of the impact of Labour's policy on child poverty. We make use of POLIMOD, a static tax-benefit model to simulate the effect of tax and benefit changes on household incomes. This model uses representative household survey micro-data to calculate taxes and benefits before and after policy reforms. See Redmond *et al* (1998) for more information.[7] Similar exercises – with differences in coverage and emphasis – have been carried out by Immervoll *et al* (1999), the Institute for Fiscal Studies[8] and by the government itself (HM Treasury, 1999). The present analysis is distinguished by its attempt to capture the effects of all the main policy changes and commitments since the Labour government came to power in 1997 that are appropriate to model in this way. The policy changes that are simulated include those that will reduce the incomes of families with children, as well as those designed to increase them. In addition, we are able to offer more detailed breakdowns of the effects of the combined changes: to examine losses as well as gains, and

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7 Our analysis is based on Family Expenditure Survey (FES) data for 1994/5 and 1995/6 updated to 1999/00 prices and incomes. To model the immediate affect on incomes POLIMOD calculates liabilities (or entitlements) to income tax, National Insurance contributions (NICs), child benefit, Family Credit (FC) or Working Families Tax Credit (WFTC), Income Support (IS) - including income-related Job Seekers Allowance and pensioners' Minimum Income Guarantee, Housing Benefit (HB) and Council Tax Benefit (CTB). Otherwise, elements of income are drawn from the recorded values in the FES dataset.

We attempt to capture the effects of non- take up of means-tested benefits (FC/WFTC, IS, HB and CTB) by applying the take-up proportions estimated by the Department of Social Security (DSS, 1999C). For example we assume that some 20% of lone parents do not receive the FC (or WFTC) to which they are entitled, and 15% of people of working age do not receive the IS to which they are entitled. In general we assume that take-up behaviour is not affected by changes in the size of benefit entitlements.

We also model the effect of the minimum wage assuming that all with hourly earnings below the relevant minimum are brought up to it and that working hours do not change. Resulting changes in earnings then affect tax and benefits.

8 See www.ifs.org.uk/budgets.

to focus separately on children in lone parent and two-parent families. We also extend our analysis in section 5 by exploring the sensitivity of the results to changes in the labour force participation of parents.

We start with policy rules as they existed in April 1997 and uprate their values to April 1999 using the Retail Prices Index. This is the *counter factual* – the policy we assume would have prevailed had Labour not come to power.[9]

The policy changes that are modelled are listed in detail in the Appendix. They include all those that have been announced, whether or not they are operational in 1999/00. New policy is set in terms of 1999/00 prices.[10] The changes that we explore include those specifically targeted on children, discussed in the previous section. We also model some general changes to income tax (including rate reductions, the abolition of relief on mortgage interest and allowances for couples and lone parents) and National Insurance contributions (alignment of earnings thresholds with income tax thresholds), as well as the introduction of the minimum wage, adjustments to benefit rates (apart from price indexation), the restriction of incapacity benefit for people in receipt of pension income, and the introduction of an annual fuel allowance for pensioners.[11]

Our estimate of the revenue cost to the government of the combination of these changes is £5.54bn per year (in 1999/00 prices).[12]

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9 Uprating is applied to all monetary values, not just elements of the tax-benefit system that are subject to statutory uprating or are traditionally uprated every year. We use the Rossi index (RPI less housing costs) for means-tested benefits.

10 Although announcements about future policy are often ambiguous about whether the amounts refer to the current year or the year of implementation.

11 There are two important aspects of policy relating to children that we do not include in our analysis: the childcare tax credit associated with the Working Families Tax Credit, and changes to Child Support. In both these cases we believe that uncertainty about behavioural responses would make model estimates misleading or unreliable.

12 This takes account of the extra revenue from increased income tax and employee contributions due to the introduction of the minimum wage. It does not include the extra cost of paying the minimum wage to government employees. The overall increase in gross earnings due to the minimum wage is estimated to be £1.66bn per year, making the total increase in net household income £7.20bn per year. Overall, our estimate is not comparable with the government's estimate of £6bn quoted earlier. Our figures show the

The effects on the distribution of household incomes are shown in Table 4. To rank people we used household income after tax and benefits (without deducting housing costs) and equivalised using the McClements scale.[13]

Table 4: The Distributional Effects of Labour's Policy

Decile group*	% of children		mean % change in household income**		% of all children in households whose income:	
	before	after	all persons	children	increases	decreases
bottom	13.4	9.3	5.5	7.9	80	19
2nd	13.9	11.7	6.1	9.3	93	7
3rd	11.0	12.5	4.7	7.4	93	7
4th	10.4	12.2	3.5	4.9	94	6
5th	10.9	11.5	2.6	3.5	97	3
6th	10.1	10.9	2.1	2.7	96	3
7th	9.5	10.2	1.6	1.9	93	7
8th	7.8	8.2	1.2	1.7	90	10
9th	6.8	7.2	0.9	1.1	80	20
top	6.1	6.2	0.2	0.3	64	36
All	100.0	100.0	1.8	3.2	89	11

Notes: *Equivalised disposable household income using April 1997 policy in 1999/00 prices. Household income is weighted by number of individuals and equivalised using the McClements scale.
**These columns show the average change in household income for all people and for children. The differences between the columns reflect the fact that some households do not contain children.
Source: POLIMOD

The first column shows the location of children in the household income distribution. Children are defined as is customary in UK social policy: aged under 16 or under 19 if in full-time secondary level

additional cost, over and above indexation, and include the effects of some additional policy changes.

13 0.61 for the first adult (head), 0.39 for a spouse of the head, 0.46 for any other second adult, 0.42 for a third adult and 0.36 for subsequent adults. The child scale is 0.09 (age 0-1), 0.18 (age 2-4), 0.21 (age 5-7), 0.23 (age 8-10), 0.25 (age 11-12), 0.27 (age 13-15) and 0.36 for any children aged 16 or over.

education and not married. We see that under pre-Labour policy children are concentrated in the lower parts of the income distribution. Nearly 60% of children are in households with the lowest 50% of incomes.

The third and fourth columns of Table 4 show the mean percentage change in household disposable income in each decile group for all persons and just for children. Many of the recent policy changes have been targeted directly at families with children and this is reflected in a percentage increase in household income which is 75% higher for children than for people in general. With the exception of the bottom decile group which includes a disproportionate number of losers, a clear gradient is evident: lower income households and the children in them gain more in proportional terms. (The pattern is the same in absolute terms. For example the bottom decile group gains an average of £5.53 per week, the 2nd decile £8.99, the 6th decile £5.94 and the top decile £1.89.)[14] The second column shows that households with children are moved up the distribution by the reforms.

The great majority of children (89%) are in households who gain from the reforms. However, some are worse off and although the majority of these are in better off households, some 2.5% of all British children are not only worse off following Labour's policy reforms, they are also in the poorest 10% of households. As shown in the final column of Table 4, nearly 1 in 5 children in households in the bottom decile - 340, 000 children – are worse off as a result of the reforms. These children tend to be in households not in receipt of Income Support (IS) who lose mortgage interest tax relief, or in households in receipt of IS with children aged over 11, who lose lone parent benefit and premia.[15] In absolute terms their fall in income is small (£2.90 per week on average) but this represents about 4% of their pre-reform income. This is

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14 As with all such estimates, this pattern will be sensitive to some extent to the chosen equivalence scale. Furthermore, in common with all other analysis based on survey data, all the POLIMOD estimates in this paper are subject to sampling error.

15 In practice, lone parents who received lone parent benefits in 1997 will continue to have their combined child benefit and lone parent benefit payment protected in cash terms. We model the long-term effect of the structural change.

a feature of the government policy package that is, unsurprisingly, not highlighted in its own analysis.[16]

Our particular concern is children living in poverty and the extent to which Labour's policy can reduce the prevalence and severity of this experience. The starting point of our analysis is the statistics on Households Below Average Income (HBAI) produced by the government (DSS, 1999b).[17] We would like to be able to answer the question: how many fewer children will be counted as poor in these statistics once the package of Labour's policies that we have modelled has taken effect? The household income variable used for ranking in Table 4 has been deliberately defined to be very similar to that used in the HBAI statistics, using the "before housing costs" (BHC) measure. However, there are some minor differences due to the fact that we must simulate taxes and benefits in order to evaluate changes in the rules that govern them.[18]

Because changes in numbers below poverty lines may be sensitive to the relationship between the line and benefit level,[19] we also use two

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16 We have no evidence which suggests that the children in these households are more advantaged in some non-monetary way or are particularly likely to benefit from the non-financial part of the government's strategy on child poverty.

17 For a description of these statistics in the context of targets for poverty reduction in the UK see Atkinson (1998).

18 We have updated FES data to 1999/2000 levels of prices and incomes in order to evaluate contemporary policy changes. In addition, there are some measurement differences which arise because we simulate some components of income (taxes and benefits), rather than using values recorded in the survey data. There are also a few conceptual differences which we introduce in order to capture all the changes in policy on which we focus – notably the change in mortgage tax relief which is not included in HBAI BHC income. More detail on these sources of difference is available in Mitton and Sutherland (2000). The main effect of simulating the tax and benefit components of income appears to be to narrow the income distribution to some extent. As described in Mitton and Sutherland, we expect the poverty line derived from simulated incomes to be some 96% of that derived from recorded survey data. This lower poverty line results in fewer people being counted as poor.

19 For example, if the IS level of income for a lone parent with one child were just below the poverty line under 1997 policy and was made slightly more generous, large numbers of lone parents and their children would appear to have been removed from poverty. On the other hand, a line drawn lower or a

alternative poverty cut-offs. These are defined arbitrarily as 10% greater and 10% less than the "half mean" line and for convenience we refer to those below the first as being "in or near poverty" (below 55% of mean income) and those below the second as being in "severe poverty" (below 45% of mean income).[20]

Using 50% of mean equivalised household income as the poverty line, Table 5 shows that, under April 1997 policy, there are 19.1% of persons and 26.3% of children below the line and counted as poor. This includes the entire bottom decile group and most of the second in Table 4. Introducing Labour's policy changes as described above reduces the overall poverty rate to 16% and the child poverty rate to 19.9%. For simplicity, in our analysis we do not re-calculate the poverty line following the impact of policy on incomes.[21] The latter reduction of 6.4 percentage points corresponds to 840,000 children. This estimate is broadly in line with the Treasury claim that child poverty would be reduced by 800,000 (for a somewhat different set of policy changes);[22] of these 60% were in families with a full-time worker, 15% with a part-time worker, 12% with a self-employed worker and 13% in workless families (HM Treasury, 1999A, Box 3.1).

Using the higher "in or near poverty" line naturally increases the numbers counted as poor, both before and after the policy changes. However, the absolute reduction in poverty is smaller, particularly for children, if a higher cut-off is used. The reduction in child poverty is now 5.5 percentage points, corresponding to 730, 000 children. Drawing a lower poverty line ("severe poverty") provides us with a similar estimate of the numbers of children who are moved out of poverty as in the "in or near poverty" case (child poverty falls by 5.8 percentage points).

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little higher would make a increase in IS seem ineffective in reducing poverty rates.

20 Mean equivalised income is £315.73 per week in October 1999 prices. For a lone parent with one child aged 6 the "half mean" (BHC) poverty line is £129.45 per week. The "in or near poverty" line is £142.39 and the "severe poverty" line is £116.50 per week.

21 However it is interesting to note that equivalised mean income rises by £5.82 per week or 1.8%. The net reduction in children counted as poor, allowing the poverty line to move, would be 670,000 with 700,000 moving out and 30,000 moving in.

22 Note that estimates of this type may be particularly sensitive to sampling error. See Pudney and Sutherland (1994).

Clearly the "standard" line is drawn at a point that is particularly sensitive to policy changes. The choice of poverty cut-off is important in evaluating the success of policy in reducing child poverty. Caution should be attached to the use of a single measure of poverty reduction. Whatever poverty line used, the impact of new policies is a clear and substantial reduction in child poverty. At the same time, we see that although large numbers of children are moved out of poverty, some 10,000 children in lone parent families find that their incomes are reduced such that they move *into* poverty. In addition it is clear from Table 4 that many who are in the bottom decile and already in poverty are pushed deeper into it.

The impact of Labour's tax and benefit changes is shown graphically in Chart A which compares incomes before and after the changes in relation to each poverty line.

Table 5 shows the effects on children in one- and two- parent families separately. Although children in one-parent families are over-represented among the poor and make up 35% of poor children (and only 22% of all children), the policy changes reduce the proportions of children in poverty in the two groups by roughly the same proportions: about a quarter using the standard poverty line.

The impact of policy changes on the number of poor children is important but so too is the poverty gap, defined as the total shortfall of household equivalised income for each child below the standard poverty line. The size of the poverty gap for children is reduced by slightly less than the headcount of poor children; we find that the combined policy changes bring about a 22.5% reduction in poverty gap. Although there is some interaction between the policy measures, it is possible to decompose approximately the reduction in poverty gap that is attributable to the main groups of changes. We focus on three that are shown below:

Child benefit, lone parent benefit and Income Support and other means tested benefit changes reduce the poverty gap by	17.4%
The WFTC reduces the poverty gap by	4.7%
The minimum wage reduces the poverty gap by	1.6%

Table 5: Poverty rates before and after Labour's policy

	All persons	Children		
		All	One parent	Two parents
Poverty line: 50% mean				
% poor, April 1997 policy	19.1	26.3	42.5	21.8
% poor, Labour policy	16.0	19.9	32.0	16.6
% point difference	3.1	6.4	10.5	5.2
Net number removed from poverty	1,770,000	840,000	300,000	540,000
Moved out	1,830,000	850,000	310,000	540,000
Moved in	60,000	10,000	10,000	0
"Near" poverty line: 55% mean				
% poor, April 1997 policy	24.7	32.6	55.8	26.2
% poor, Labour policy	21.7	27.1	47.8	21.3
% point difference	3.0	5.5	8.0	4.9
Net number removed from poverty	1,750,000	730,000	230,000	500,000
Moved out	1,830,000	740,000	240,000	500,000
Moved in	80,000	10,000	10,000	0
"Severe" poverty line: 45% mean				
% poor, April 1997 policy	13.5	18.4	25.7	16.4
% poor, Labour policy	10.8	12.6	18.2	11.1
% point difference	2.7	5.8	7.5	5.3
Net number removed from poverty	1,550,000	760,000	210,000	550,000
Moved out	1,590,000	770,000	220,000	550,000
Moved in	40,000	10,000	10,000	0

Source: POLIMOD.

It is clear that the increases in child benefit and social assistance benefits – even allowing for the reductions in lone parent benefits - contribute the largest share (three quarters) to the immediate reduction in poverty gap.

The main effects of tax and benefit changes and introduction of the minimum wage are ***summarised*** as follows:

- They increase the incomes of the poorest more than those of the better-off and of households with children more than others.

- Nine out of ten children are in households with increased income but one in ten are worse off. One fifth of the poorest children are in households where incomes *fall*.
- The proportion of children in poverty (below 50% of mean income) falls from 26% to 20%, a decrease of 840,000 – 540,000 in two-parent and 300,000 in one-parent families.
- The changes reduce the size of the poverty gap – the aggregate deficit below the poverty line – by nearly one quarter. This reduction is mainly due to the effects of increases in child benefit and means-tested benefit rates for children.

4.3 The changes in the tax and benefit systems: some reflections

Ending child poverty requires an adequate minimum income. For those in Britain who depend on social security the minimum income, or safety net, is the Income Support system. The levels of Income Support are shown in Table 6 in comparison with the poverty level of half-mean equivalised income after housing costs. It will be seen that for those who do not have employment, the minimum income is far below the poverty level. The reduction of poverty, and the achievement of security for those who cannot work, depends on reducing those deficits.

Table 6: Income Support and Poverty Levels 1999-2000

	Income Support (IS)	Poverty Level (PL)	IS as % of PL
Couple with two children aged 4,8	134.95	211.06	63.9%
Lone parent with one child aged 6	87.35	113.76	76.8%

Notes: Poverty level for 1999-2000 is poverty level for 1997-98 (Department of Social Security, 1999b) adjusted for forecast rise in Real Household Disposable Income and Retail Price Index set out in HM Treasury (1999b).

The government has, as described above, reduced the deficit for young children, but by abolishing the premium for one-parent families it worsened the deficit for some families. For the future, there is no commitment to up-rate Income Support levels by more than the rise in prices. Nor has there been any indication of an intention to increase

Income Support levels to make up the deficit below the poverty level. To do this would require further redistribution, which has yet to be discussed, at least in public, by the government. Failure in the future to increase Income Support in line with the rise in other incomes will inevitably contribute to relative poverty being higher than it otherwise would have been.

Most of the redistribution that the policy changes will bring about is being achieved – some would argue being concealed – by the use of new-style tax credits. These have a number of clear differences from more conventional benefits. First, it puts resources in pay packets rather in benefits paid separately, usually through Post Offices. Whether this will make it clear that "work pays", as has been argued by the Chancellor, remains to be seen. Reliance on employers to pay out tax credits is no problem for those with stable, reliable employers; for those with tardy or transitory employers there may be real administrative problems.

A second difference between benefits and tax credits is that the former have been treated in government accounts as expenditure and the latter as negative taxation. In the past, this has often resulted in tax credits and allowances rising in value when public expenditure has been tightly constrained; this is not merely an artificial distinction, it is one that has tended to favour those better-off who gain from tax concessions at the expense of those relying on benefits. If tax credits and social security benefits are treated equivalently then so much the better.

A third important difference is that tax credits are the responsibility of the Inland Revenue which is controlled by the Treasury. At every opportunity the Chancellor has shown concern for child poverty and has seemed keen to integrate taxation and social security. For the Treasury to show such interest is unusual and clearly makes poverty reduction more likely. On the other hand, the Treasury has little of the Department of Social Security's experience of delivering services, in many cases to people budgeting from day to day, let alone from week to week; the Inland Revenue's annual assessment of income is little help to a child facing poverty today. Politically the Treasury has not in the past shown conspicuous concern for the poor while the Department of Social Security has defended the interests of those dependent on benefits; whether one Chancellor can achieve a long-term conversion is another open question.

5 Policies to Promote Paid Work

The Government's approach has been described in clear terms:

> "Our strategy is to tackle the causes of poverty and social exclusion by helping people find work.
>
> A proactive welfare system is at the heart of tackling worklessness. Our ambition is to deliver a change of culture among benefit claimants, employers and public servants, with rights and responsibilities on all sides. Those making the shift from welfare into work are being provided with positive assistance, not just a benefit payment. We are shifting the focus to include all groups – partners of the unemployed, lone parents, carers, people with a long-term illness or disability – not just the claimant unemployed. There are two key components of this." (DSS,1999a: 84)

The strategy rests on two key components: making work pay and helping people return to or find paid work.

One of the aims of the Working Families Tax Credit (and the associated Childcare Tax Credit) is to "make work pay". One example of this is the following.

> "Before the reforms a couple with two young children where the father moved into work at a typical male entry wage of £200 a week was only £30 better off per week than on benefit. This has now increased to £42." (HM Treasury, 1999a: 33)

To help people to return to or find work, new benefit clients of working age, including lone parents, will be required to take part in work-focused interviews at the single gateway into the system (designated 'ONE') which will provide a personal adviser. For example:

> "The New Deal for Lone Parents is a comprehensive package of back-to-work help designed to:
>
> - help and encourage lone parents on Income Support to take up paid work; and
> - improve the job-readiness of lone parents on Income Support and increase their employment opportunities."
>
> (Source: DSS, 1999a: 59)

In addition to policies designed to get people into paid work there are other labour market policies to improve the position of those in work.

- The promotion of lifelong learning and work based learning.
- Measures to tackle discrimination against people with disabilities, women and ethnic minorities.
- The promotion of family-friendly employment policies and improved maternity and parental rights.

All these labour market policies will, to some extent, contribute to reducing child poverty.

5.2 *Making work pay*

How far have the policy changes served to make paid work more financially attractive? Tables 7 and 8 show some illustrative calculations of the gain from earning for two family types (lone parents with one child and couples with two children), using standard government assumptions about housing costs and other circumstances that affect benefit entitlement. The increases in the gain from earning due to Labour's policies are at best modest. In the case of lone parents, those earning around £100 per week would find that the return to working was *lower* under Labour policy than under policy that existed before the 1997 election. This is due to the combination of the abolition of lone parent benefit and the interaction between WFTC and Housing Benefit and Council Tax Benefit. To some extent, this may be due to particular assumptions about rent and other circumstances in these stylised calculations. To explore whether it is a more general phenomenon, we compare the gains for lone parents from entering employment at different earnings levels (using a representative sample of lone parents from the Family Expenditure Survey). This shows that with minimum employment (16 hours on the minimum wage) the majority of lone parents (66%) gain *less* from entering work than they would under pre-Labour policy. At a higher level of earnings (30 hours on the minimum wage) most (58%) gain more as a result of Labour policies. The averages may mask a range of actual situations and circumstances. Chart B plots the gain from earning the minimum wage for 30 hours under the two policy regimes.[23] Points above the 45° line show cases where lone parent families gain more from working under Labour policy than under

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23 For each lone parent in the FES database who is not currently employed and who have no children aged under 5.

previous policy. The reverse is the case for points below the line.[24] It seems clear that even with higher earnings many lone parents in a range of circumstances have a reduced incentive to work under Labour than previously.

Table 7: Gains from earning – Lone Parent with one child (aged under 11)

Earnings	Pre-Labour policy		Post-Labour policy	
	Net income	Gain from earning	Net income	Gain from earning
0	138		144	
50	148	10	154	10
100	184	46	182	38
150	199	61	212	68
200	203	65	227	83
250	218	80	242	98
300	252	114	258	114
350	285	147	291	147
400	319	181	325	181

Notes: All figures per week, rounded.
Source: POLIMOD using assumptions about rent and council tax taken from Department of Social Security (1999d), Table 1.2a.

24 Note that the policies that are modelled include cuts to income tax and NICs and increases in child benefit: those on incomes (including unearned income and transfers from other households) that are high enough not to qualify for WFTC will tend to all ое above the line.

Table 8: Gains from earning – Couple with two children (aged under 11)

Earnings	Pre-Labour policy		Post-Labour policy	
	Net income	Gain from earning	Net income	Gain from earning
0	187		207	
50	197	10	217	10
100	204	17	225	18
150	217	30	243	36
200	218	31	258	51
250	224	37	273	66
300	255	68	289	82
350	289	102	304	97
400	322	135	335	128

Notes: All figures per week, rounded.
Source: POLIMOD using the same assumptions, updated, as Chart 1 and Table 2 in HM Treasury *The Working Families Tax Credit and Work Incentives*, 1998.

5.3 *The potential impact of possible changes in working patterns*

The policy changes that we have just described are designed to push or pull people not doing paid work into the labour market. Whether or not these policies will have the desired effect and how large it will be depends on many factors that we do not attempt to forecast. Rather we simulate possible changes to analyse their impact on child poverty. In this section we explore the implications for poverty measures of various scenarios of changed work patterns. We make use of the same POLIMOD model and the same assumptions as before.

We assume that changes in paid work will not occur when:

- the youngest child is aged under 5[25]
- the parent(s) are over pension age,

25 This is the maximum age for starting school in the UK. Although some lone parents with pre-school children may wish to do paid work and make use of childcare of some form, we do not think it is appropriate to assume that all such parents should be considered to be "available for work". In fact, in our database, 13% of lone parents with children aged under 5 are employed for 16 hours or more, compared with 35% of lone parents whose children are all aged 5 or older.

- the parent(s) are currently employed or full time students
- the parent(s) are receiving benefits that indicate they would not/could not accept paid work (disability benefits, maternity benefit etc).

We focus first on the children of lone parents and then on a wider group also including children living with both parents. In our simulations we choose to put *all* people in our target groups into work. This is to illustrate the maximum potential impact. There are 350,000 such lone parents and 1,070,000 couples.[26] For lone parents we examine three work entry scenarios in turn:

(i) All assumed to work for 16 hours at the minimum wage (£57.60 per week)

(ii) All assumed to work for 30 hours at the minimum wage (£108.00 per week)

(iii) Earnings are taken to be the mean of actual values in the updated FES dataset for lone parents currently in work: £128.83 for those employed less than 30 hours, £317.87 for those employed for 30 hours or more. As in the database, 50% of lone parents work under 30 hours and 50% over.

For couples we explore the scenario:

(iv) All assumed to work for 30 hours at the minimum wage.[27]

Table 9 shows the impact on child poverty for one parent families of each of the work entry scenarios, both with and without Labour's tax/benefit changes. Table 10 shows the same information for working at the minimum wage for 30 hours, for children in two-parent families and for the two family types combined. The figures show the poverty reduction following the tax/benefit changes alone (as in Table 5) and the additional reduction in poverty following work entry under Labour tax/benefit policy. This is contrasted with poverty reduction following

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26 We assume no increase or decrease in hours or earnings for those already in paid work. We ignore childcare costs. We assume that people entering work all claim and receive WFTC, if entitled, but otherwise we assume that benefit take-up behaviour remains constant.

27 In the case of couples we assume just one of them enters work. For the purposes of these calculations it does not matter whether it is the mother or the father.

work entry under pre-Labour policies.[28] For example, for lone parent children using the 50% mean poverty line, 300,000 children are removed from poverty by tax/benefit changes alone. If parents with children over 5 (and meeting the other conditions) entered work for 16 hours at the minimum wage another 300,000 children would be clear of poverty. If taxes and benefits had not changed but the same change in paid work had occurred, poverty would have fallen by 260,000.

It is clear that the additional effect of getting parents into work has a significant effect on child poverty rates. Putting all able-bodied parents without very young children into work has an additional effect that roughly matches that of the tax/benefit policy changes alone.

For lone parents, the combination of tax/benefit changes and paid work reduces child poverty rates by about half in total, with up to 710,000 children being moved above the 50% mean poverty line (Table 9). We see that the level of earnings makes little difference at the two higher levels, but that lower poverty reduction is achieved by minimum employment of 16 hours.

Table 9: Net reduction in child poverty due to changes in employment patterns: lone parent families (thousands of children)

	Labour tax/benefit changes only	Lone parents enter employment					
		Pre-Labour policies			Post-Labour policies**		
Work entry scenario*:	-	(i)	(ii)	(iii)	(i)	(ii)	(iii)
Poverty line: 50% mean	300	300	410	410	260	370	390
"Near" poverty line: 55% mean	230	260	420	450	260	470	470
"Severe" poverty line: 45% mean	210	260	320	320	180	230	220

Notes: *See text for explanation.
**These reductions are *in addition* to those due to Labour tax/benefit policies alone.
Source: POLIMOD

28 Where we assume, nevertheless, that entry wages are no lower than the minimum wage.

Interestingly, entry into employment is generally more effective at reducing child poverty in lone parent families under pre-Labour policy than after the tax/benefit reforms. (The reverse is the case when the highest of the three poverty lines is used.) We have already seen that for some lone parents the returns to working are smaller under Labour than previously. The lesser effect on poverty is also because, as we have seen, a significant number of lone parents lose from Labour's combined tax/benefit changes.

In contrast, putting two parent families into work (Table 10) has a larger effect on poverty among children in this group under Labour tax/benefit policies than under pre-Labour policies. It seems that the increased generosity of the WFTC has the effect of bringing more newly employed two-parent families above the poverty line. With 30 hours work at the minimum wage the number of children in these families raised above the poverty line rises from 540,000 by 620,000 to 1,160,000. Per person employed, however, the reduction in number of poor children is lower for two-parent families than one-parent families. Employment of an eligible lone parent on average reduces child poverty by 1.8 times as much as employment of an eligible parent in a couple under Labour tax/benefit policies.[29]

It should be noted that the scenario, which combines entry into employment for both lone parents and couples, involves a major expansion of employment by nearly 1.5 million jobs; this contributes by taking about 1 million children out of poverty. Even then, overall child poverty is reduced by 1,850,000: roughly halved, not reduced to zero. The explanation mainly lies in the fact that not all children have a parent that is available to enter work for 16 hours or more. The children of parents who we assume to be potentially available for work make up just 49% of poor children (using the standard line).[30] Those that remain are the sick and disabled, parents of very young children and people already working for low earnings. These families may be helped by tax and benefit policy, but not – at least in the short term – by employment strategies.

Table 11 focuses on the children in families where we have assumed that a parent enters work. It shows poverty rates among these children (a) before any changes, (b) after Labour tax/benefit policies, (c)

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29 Under pre-Labour tax/benefit policies the ratio is 3.4: 1 (one parent: two parent).

30 The figures are 45% and 56% for the "hear" and "severe" lines respectively.

on entry into work under pre-Labour tax/benefit policies and (d) on entry into work under Labour policies. The table shows that in general the combination of tax/benefit policy changes and employment is pretty effective at removing these children from poverty. For the children of lone parents, poverty rates fall to single figures except where the poverty line is high or the assumed earnings are the minimum to qualify for WFTC. It is also possible to discern a small additional effect of the tax-benefit changes on top of the employment effects. For example, for the higher two poverty lines and the most generous/optimistic earnings assumption – (iii) – the poverty reduction is greater under the WFTC (from 71% to 3% using the standard line) than under unreformed tax/benefit policies (71% to 7%). This shows that in some conditions the WFTC could bring a few more lone parents out of poverty on entry into work than did the less generous family credit. But the effect is small and most of the impact of the WFTC will be on children whose parents are already in paid work (as included in the calculations shown in first column of Table 9) or through encouraging lone parents to take up work.

For children in two parent families the combination of Labour tax/benefit policies and entry into employment is less effective at reducing poverty rates than it is for the children of lone parents. Poverty rates are substantially reduced (for example from 60% to 19% using the standard poverty line, but less so than under the corresponding scenario for lone parents (where the reduction is from 71% to 4%). Much more of the "action" seems to come from the tax/benefit policy changes than from employment. Not only is the poverty reduction following tax/benefit changes alone larger for children in two- than one-parent families (a reduction of 11 percentage points, compared with 8), but the difference in the effectiveness of employment under the two policy regimes is quite marked. Child poverty rates for this group fall from 60% to 42% following entry into employment under pre-Labour policy; however they fall to 19% if they enter work under Labour tax/benefit policies. Thus is appears that the combination of tax/benefit policies favours children in two-parent families (compared with children living with one parent) and have a significant impact on poverty rates in this group; none of these children lose from the reforms.

Table 10: Net reduction in child poverty due to changes in employment patterns: two parent families and all families (thousands of children)

	Labour tax/benefit changes only (couples)	Couples enter employment		Labour tax/benefit changes only (all)	Couples + lone parents enter employment	
		Pre-Labour policies	Post-Labour policies**		Pre-Labour policies	Post-Labour policies[2]
Work entry scenario*:	-	(iv)		-	(v) =(ii)+(iv)	
Poverty line: 50% mean	540	370	620	840	790	1010
"Near" poverty line: 55% mean	500	250	510	730	670	970
"Severe" poverty line: 45% mean	550	500	600	760	810	810

Notes: *See text for explanation.
**These reductions are *in addition* to those due to Labour tax/benefit policies alone.
Columns of Tables 9 and 10 may not sum due to rounding.
Source: POLIMOD.

Table 11: Children whose parents enter paid work: child poverty rates

		Lone parents enter employment			Couples enter employment	Couples + lone parents enter employment
***Work entry scenario**:*		(i)	(ii)	(iii)	(iv)	(v) = (ii) + (iv)
% of all children		4.9	4.9	4.9	15.9	20.8
% of children in one/two parent families		22.7	22.7	22.7	20.2	20.8
Poverty line: 50% mean	(a) poor before** %	71	71	71	60	62
	(b) poor after Labour tax/benefit changes %	63	63	63	49	52
	(c) poor after employment under pre-Labour policy %	25	7	7	42	34
	(d) poor after employment under post-Labour policy %	23	4	3	19	16
"Near" Poverty line: 55% mean	(a) poor before** %	86	86	86	66	71
	(b) poor after Labour tax/benefit changes %	83	83	83	61	66
	(c) poor after employment under pre-Labour policy %	46	20	16	54	46
	(d) poor after employment under post-Labour policy %	45	10	11	37	31
"Severe"Poverty line 45% mean	(a) poor before** %	51	51	51	49	49
	(b) poor after Labour tax/benefit changes %	34	34	34	34	34
	(c) poor after employment under pre-Labour policy %	9	3	2	25	20
	(d) poor after employment under post-Labour policy %	8	1	2	5	4

Note: *See text for explanation; ** Labour tax/benefit changes.
Source: POLIMOD

In Summary:

- The simulations of work-entry scenarios suggest that for lone parents and for couples, entry into paid work for all those who are able-bodied and with children aged 5 or over could roughly double the reduction in poverty achieved by the tax/benefit changes alone.
- With a major expansion of paid work for parents, by around 1.5 million jobs, poverty would be reduced by 1,850,000 or roughly halved, leaving about 2 million children still in poverty.

5.4 Increasing paid work: some reflections

The government's objective is to increase paid work as one way of reducing child poverty. It is aiming to do this by means of sticks and carrots. ONE and the New Deal are in part both sticks and carrots but the only group for whom there is direct sanction are those registered as unemployed; lone parent families are encouraged to discuss and seek training and employment but, as yet at least, benefits are not conditional on compliance. The main carrot is the Working Families Tax Credit which is aimed at make low-paid work more attractive and, alongside the minimum wage, guarantee a minimum income to those in paid work. The WFTC is intended to ease the unemployment trap (a lack of any significant gain in net income as a result of taking a job) and ease the poverty trap (the loss of most additional earnings – or high marginal effective tax rate – due to income tax, national insurance contributions, and reduced means-tested benefits). However, this inevitably involves extending the poverty trap, increasing the earnings band over which marginal effective tax rates are high (but not as high as before). As this extension up the earnings distribution occurs, the numbers involved increase rapidly. Thus the WFTC will reduce the number facing marginal effective tax rates of 80% or more, but it will increase the number facing marginal losses of over 65%.

It remains the case that many will gain relatively little from paid work, as shown in section 5.2. Thus, it seems unlikely that the "carrot" of financial gain will encourage many more into paid work.

It is certainly the case that unemployment has been falling but how far this is due to the New Deal is uncertain. Some argue that the fall in unemployment is the result of economic growth, others see that new supply-side policies as making a real contribution. It remains a matter of controversy how far jobs are available in the poorest areas (see *New Economy*, 1999.).

Another constraint on paid employment for parents of young children is the availability of childcare. The new National Childcare Strategy is starting to increase the amount of available childcare but, as yet, provision remains patchy and limited so that its impact on employment will for the next few years be limited.

A major issue in relation to paid work concerns lone parents. The issue may be put in over-simplified terms. Should they be required to work to get benefits, as happens in the USA? Should they have childcare available that allows them to support themselves through paid work, as happens in Scandinavian countries? British policy has not confronted this issue but rather seeks to allow choice and encourage paid work. How far this compromise will be effective or sustainable remains to be seen.

6 Long-Term Disadvantage

The issue of intergenerational child poverty is discussed by Hobcraft, and by Machin (in CASE and HM Treasury, 1999). The Department of Social Security summarised the findings as follows:

- "Poverty in childhood increases the likelihood of low income in adulthood;
- there is a strong association between children's earnings and those of their parents. Only a third of boys whose fathers were in the bottom quarter of the earnings distribution made it to the top half when they grew up and the pattern is similar for girls. Men whose fathers were unemployed are twice as likely to be unemployed for a year or more between the ages of 23 and 33; and
- people's chances of being in a manual occupation, having no access to a car and living in rented accommodation are also higher if their parents were in the same position.

There are key risk factors occurring during childhood and adolescence which research suggests increase the likelihood that disadvantaged children will fare worse in later life.

- Poor early development
- Poor school attendance
- Being 'looked after' by a local authority
- Contact with the police
- Drug misuse
- Teenage parenthood
- Non-participation in education, employment and training between the ages of 16-18.

Many of these factors are linked - for example, young women in care have repeatedly been shown to be at higher risk of teenage pregnancy and teenage parents are more likely to drop out of education early."
(Source: Cm 4445: 43-4)

This assessment of 'risk factors' is important in indicating the breadth of the government's thinking about the causes of poverty, what some have characterised as "joined-up" thinking. As will be seen in the next section, policy initiatives address many aspects of these risk factors, not merely those that have an immediate impact on poverty defined narrowly in terms of inadequate income. However, as will be discussed in the final section, the ability of government to influence some risk factors – such as growth of lone parent families – may be rather limited. The expansion of thinking about the causes of child poverty is, nevertheless, liberating and challenging.

In relation to children and young people the aim was to break the cycle of disadvantage, with three policy priorities:

- "Ensuring that all children get a high-quality education wherever they go to school and providing additional help to children in the crucial pre-school years.
- Combating family poverty and social exclusion through our policies to tackle worklessness, increasing financial support for families and improving the environment in which children grow up.
- Supporting vulnerable young people, especially in the difficult transition from childhood to adult life."

(Source: Cm4445: 5)

6.1 Measures to tackle long-term disadvantage

One of the objectives of many reforms in education, healthcare, employment and environmental policy is to provide a better start for

vulnerable families. Two major initiatives are focussed on children in the pre-school period.

> "The central challenge is to ensure that every child arrives at school healthy and ready to learn. This means we need to increase opportunities and to provide effective, integrated support that addresses both the needs of children and their parents.
>
> The period before and immediately after birth is crucial to a child's development and future prospects. We are addressing this through help to the poorest families.
>
> The Sure Start strategy: In April 1999 the first 21 Sure Start programmes were announced. They will offer help to families with children from birth up to the age of four, in areas where children are most at risk from poverty and social exclusion.
>
> Through the National Childcare Strategy we aim to ensure good quality, affordable childcare for children aged 0-14 in every neighbourhood. £470 million will be invested in childcare in England over the lifetime of this Parliament, including £170 million from the New Opportunities Fund to support new out-of-school services." (Source: Cm 4445: 46)

A number of initiatives are being taken to make sure that all children benefit from increased opportunities. Here three examples must serve.

First, there is concern at the extent of exclusions from school and the extent of truancy. This was investigated by the Social Exclusion Unit, set up within the Cabinet Office in 1997 (SEU, 1998). £500 million is being invested to reduce exclusion and truancy in schools and to raise the attainment levels of children at risk of social exclusion. A range of innovative projects are being introduced to tackle disaffection and invest in specific action aimed at those pupils excluded for more than 15 days.

Second, there is additional investment being made to improve opportunities for ethnic minority pupils. Children from ethnic minority backgrounds now represent one in ten of the school population, and over half a million of these do not have English as a first language and others at risk of failure, including support for the community mentoring programmes for children. To enable schools to respond to these additional needs, they will receive grants to employ additional specialist teachers or bilingual classroom assistant.

Third, measures are being taken to half the rate of teenage conception (SEU, 1999). The UK has the highest teenage birth rate in Western Europe. The problem is most serious in the poorest areas and among the most vulnerable young people, especially those in care and those excluded from school.

These and other measures to tackle long-term disadvantage lie at the heart of the government's attempt to tackle the causes of future child poverty. How far they will be successful is beyond the scope of this paper – indeed in many cases beyond the range of any social science knowledge. Rather more can be known about the immediate effects of government policies on child poverty, and it is to this that the next section turns.

7 Assessment and Conclusions

7.1 The prospect for child poverty

In section 4 results of micro-simulation of the policy changes indicate that on current and already announced policies[31] the number of children in poverty will by 2002 fall by about 840,000 – a reduction of about one-quarter. If paid work increases greatly, by 1.5 million jobs (scenarios ii and iv in section 5) then child poverty would fall by a further million or by a total of 1,850,000. This is an illustration of the near upper bound of what could happen, not a forecast. The actual prospects for parents' paid work are uncertain but if their employment increased by 250,000 by 2002 this would contribute to child poverty reduction by about 160,000. Together with tax and benefit changes would result in a fall in child poverty of about one million – or by one-third of its current level. This seems a realistic forecast, but three aspects warrant attention.

First, not surprisingly, those raised out of poverty tend to be those closest to the poverty line. In 1979 two-thirds of those below half the average income level were in the range 40-50% of the average. In 1998 two-thirds of those below half-mean income level were below 40% of the average (DSS, 1998; DSS 1999b). Thus, as the depth as well as the number in child poverty has worsened, so has the problem of tackling it become more severe. While a start has been made, it has largely dealt with the least severe cases.

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31 At the time of writing, at the end of January 2000.

Second, it is important to stress that, while child poverty will be substantially reduced, the extent of child poverty that will remain in 2002 is extremely high by post-war Britain standards and by European standards. Child poverty will still be over twice as high as when a Labour Government was last in office. If the Prime Minister's declared aim of abolishing child poverty in a generation is to be achieved then it will not be enough to roll forward the policy initiatives taken so far, it will be necessary to maintain, indeed accelerate, the momentum of policy change and achieve further transfers of resources to families with children.

Third, this forecast depends on unemployment being kept down. As was stated in *The Changing Welfare State*:

> "Sharp economic downturns and structural change lead to high unemployment and economic inactivity. This in turn can increase benefit caseloads dramatically. Such changes are not automatically reversed as the economy improves. If no action is taken, high levels of worklessness can persist for long periods. And persistent worklessness leads to poverty and social exclusion." (DSS, 2000: 67)

7.2 A selective strategy

The paper has considered the policy initiatives so far presented by the British Government - some of which, like the Child Tax Credit, have yet to be implemented. As might be expected, given the Labour Party's reluctance to present specific policy proposals before its election, the Government has not come forward with any long-term plan for achieving the Prime Minister's aim for overcoming child poverty in a generation.

The evidence and analysis presented here suggests that the policy initiatives taken so far will have a significant, positive impact on child poverty. But they will only reduce child poverty by about one-quarter and only the easiest part of the problem will be resolved. To maintain momentum will require more poor families to earn more - which will require skills, childcare and jobs - and to receive more from the state either in subsidies to low pay or social benefits - which will require more redistribution. Whether the political will exists or can be generated to maintain this momentum, only the future will tell.

There is however one fundamental aspect of the 'New Labour' approach which deserves discussion since it will certainly influence long-term developments. The present Chancellor, Gordon Brown, has,

far more than previous Chancellors, taken charge of policy concerning poverty (including issues such as Third World Debt, which are far beyond the scope of this paper) and shows genuine interest and commitment. The approach has been to concentrate resources on the poor by means of greater selectivity and means testing. While child benefit has not been ignored, the increase in it is far smaller than in the means-tested element now operated through the Working Families Tax Credit. In the short- or medium-term greater targeting or selectivity is the most effective means of boosting the incomes of the poorest. But, in the longer-term, increased support for the poorest which is then rapidly withdrawn from those with more earnings, serves to extend the poverty trap – even if its extremes are smoothed out. There is a danger of creating a two-class world among families: poor families with no or low pay who receive large amounts of Income Support or Working Families Tax Credit and other families who receive little state support. If the condition of the poor families is improved but not that of other families on low or average incomes, then the incentive to self-help will inevitably decline. Thus, while the New Labour approach emphasises responsibilities and stresses the desirability of more self-reliance, its selectivity strategy may be undermining what it seeks to encourage.

7.3 Joined-up government

Much government rhetoric has been devoted to the tackling the causes of poverty and "investing in success"; by contrast, traditional social security is "investing in failure" and redistribution has become politically unmentionable. Prevention is preferable to alleviation of poverty. Yet most of the impact of the policy initiatives in the short and medium term depends on redistribution. Most of the immediate reduction in child poverty results from the increases in Child Benefit and Income Support for younger children and the Working Families Tax Credit. These changes, plus others such as the Child Tax Credit are all essentially redistribution to families with children. For some, this redistribution may serve to make work pay rather better than before, but any effect of this on employment is likely to be limited. Other labour market policies are likely to have a relatively small impact. Policies directed at long-term disadvantage will only have an impact in the long-term.

It remains far from clear that government thinking is "joined-up". To take one example, to qualify for Working Families Tax Credit requires 16 hours work; by contrast, for 3 and 4 year olds at school, only 12.5 hours of nursery schooling are provided for 33 weeks of the year.

Some small steps towards child- and parent-friendly government have been made but there is still a very long way to go.

"Joined-up" policy not only requires coherence between government departments. The opportunities of children depend on social provisions but they also depend on their family environment on the local community, and on the wider economic and social environment. Ending income poverty is not on its own enough to ensure decent opportunities for all children. If, as the Secretary of State for Social Security wrote, "Children born in run-down estates should have the same opportunities as those born in leafy suburbs, the same good health, the same decent education and the same hope for the future", (Darling, 1999) then a more fundamental rethink about public and private responsibilities for children and about inequality in society cannot be long delayed.

An indication of coherent thinking is the commitment to review policies and publish an annual report on progress. An independent review of indicators of poverty and deprivation is already being undertaken and published (Howarth *et al*, 1999). Yet for government with superior access to data and resources to monitor the effectiveness of its own policies, and to publish the results, is a courageous commitment which suggests that their concern about child poverty is not ephemeral headline-grabbing.

7.4 Conclusions

Britain has had a growing problem of child poverty, which is now among the most severe among industrialised nations. This problem is closely linked to high levels of worklessness in families with children.

The Labour Government has adopted redistributive tax/benefit policies and active labour market policies that should by 2002 reduce the number of children in poverty by about one million. But there are some losers even at very low income levels.

Even if the promotion of paid work were successful to most improbable extent, this would still leave 2 million or more children in poverty. Such an increase in paid work is improbable since measures to 'make work pay' have made little difference.

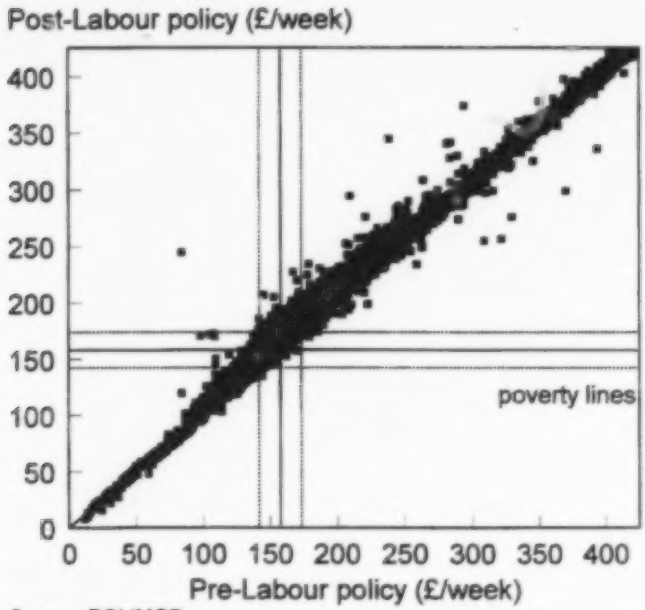
To make work pay to a greater extent there are unpalatable but inescapable choices. Either Income Support levels to those not working would have to be relatively reduced (which will happen over time if uprating is not in line with other incomes) – which will add to child poverty. Or benefits to those in low paid work (such as WFTC) will have to increase. If this is done only for those on very low earnings, the

means-testing involved will exacerbate the poverty trap discouraging self-reliance; if higher benefits are spread to higher earnings levels, the cost to the Exchequer will be greatly increased and can only be met by explicitly redistributive tax policies.

The promotion of paid work is not, however, only a matter of financial incentives: it involves too child care, transport and family-friendly employment. The difficulties and stress – impinging on both parents and children – that result from combining paid work and the care and upbringing of children will only be marginally affected by Labour's reforms thus far.

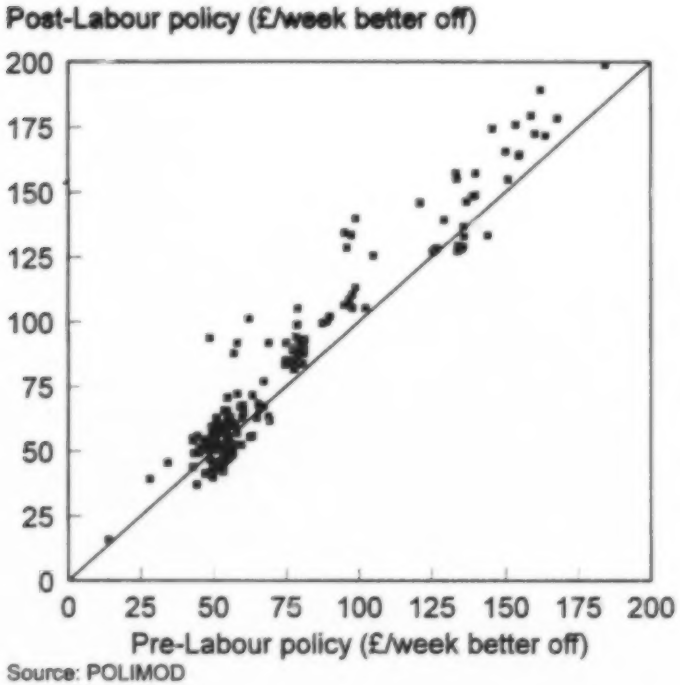
The challenge of overcoming child poverty is a challenge to the whole society. What happens to the poorest, most vulnerable, least secure children reflects the society as a whole. How far child poverty can be ended and children's opportunities improved without confronting the broader inequalities in society is open to question. Nevertheless, by focussing on the income and opportunities of the poorest, a significant start has been made towards ending child poverty. Much remains to be done but the Prime Minister has said and the Chancellor has repeated: "We will not rest until we have banished child poverty from the face of Britain" (Brown, 1999, p.8). On the basis of the analysis presented here, rest may be a long time in coming.

Chart A: Equivalised household incomes before and after Labour tax/benefit policies in relation to poverty lines



Source: POLIMOD
All families with children with equivalised income below 80th percentile
For definitions of poverty lines, see text.

Chart B: Gains from working 30 hours on the minimum wage (£/week), lone parents with youngest child aged 5+



Source: POLIMOD

Appendix: Modelled changes in tax and benefit policy announced since April 1997

Amounts are weekly and differences expressed in real terms, unless otherwise specified. At the time of writing £1 equals approximately E1.60 or US$1.60.

Introduction of a **Minimum wage** of £3.60 per hour for employees aged 22 and over; £3.00 for employees aged 18-21.

Child benefit increased by £3.25 to £15 for first or only children and £0.40 to £10 for other children.

Lone parent benefit abolished (the 1997 benefit would have been £6.45 in 1999/00 in real terms).

Working Families Tax Credit (WFTC) replaces family credit. WFTC has a more generous starting point (by £9.35); a lower taper (55% instead of 70%); a higher adult credit (by £2.50), higher credits for children aged under 11 (by £8.30 per child) but lower credits for children aged 18 (£10.35 lower). (The childcare tax credit is not modelled.)

Income Support: family premium increased by £2.80; lone parent premium abolished (it would have been worth £5.15 in 1999/00); rates for children aged under 11 increased by £8.30 and those for other children aged under 18 by £0.40; rates for children aged 18 reduced by £9.35; premia for pensioners ("Minimum Income Guarantee") increased by £4.65 (single) and £7.45 (couples) and disability premia increased by £0.90 per person.

Housing benefit (HB) and **Council tax benefit** (CTB) changes match those for income support *except* that the real value of the 1997 lone parent premia (abolished) is £23.05 (HB) and £11.75 (CTB); there is no reduction in allowance for children aged 18 in HB and CTB.

Capital thresholds in all means-tested benefits (including WFTC) reduced in real value by 4.8% since 1997. (These have not been uprated since 1988.)

Winter fuel allowance: £100 per year for households containing a person over state pension age or in receipt of Income Support pensioner premium. (Assumed to be £1.92 per week.)

National insurance contributions: **Class 1** employee contribution lower earnings limit (LEL) increased by £17 (to £83); upper earnings limit (UEL) increased by £50 (to £550); contributions on earnings below the LEL ("entry fee") abolished (worth up to £1.32 per week). **Class 2** (self-employed) contributions reduced by £4.55. **Class 4** (self-employed) lower profits limit aligned with the Class 1 LEL (a reduction of £61);

Class 4 upper profits limit aligned with the Class 1 UEL (an increase of £50) and the rate of Class 4 increased from 6% to 7%.

Income tax schedule: introduction of a 10% lower rate on first £1500 of annual taxable income (replaces 20% lower band); standard rate reduced from 23% to 22%.

Married couples allowance (MCA) for couples both aged under 65 and **Additional personal allowance** abolished. (Under 1997 policy this was worth 15% of £1970 per year or £5.68 per week in 1999/00 prices.) **Age-related MCA** increased so that pensioner couples do not lose. Age-related personal allowances increased by £130 per year (age 65-74) or £200 per year (age 75+).

Mortgage tax relief abolished. (In 1997 the maximum annual relief was 15% of the annual interest on £30,000.)

Introduction of a **Children's tax credit**: this is worth £8 to (taxpayer) families with children aged under 16. If either parent is a higher-rate (40%) taxpayer, the value of the annual credit is tapered at a rate of £1 for every £15 of income per year above the 40% threshold.

Incapacity benefit is reduced by 50p for every £1 of occupational or personal pension income over £85 per week.

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